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SUBJECT: UNEMPLOYMENT AND DECLINE IN REAL WAGES HIT
RUSSIA'S RUST BELT

Classified By: EconMinCouns Eric T. Schultz, Reasons 1.4 (b,d)

SUMMARY

1. (C) By most accounts, unemployment in Russia has reached 6.1 million. In addition, almost two thousand corporations plan to reduce their work forces in the course of the year. Hardest hit are twenty-five million residents of the single-company towns - primarily in the manufacturing and extraction sectors) which are reeling from a nearly 20 percent plunge in industrial output. Experts contend that given employers, tendency to reduce hours and lower or delay salaries rather than lay off workers, the decline in real wages is a more accurate indicator than unemployment levels of how the crisis is affecting the work force. Meanwhile, the government's 43 billion ruble package to subsidize regional employment programs is unlikely to improve the situation owing, among other things, to unrealistic job creation targets and widespread corruption at local levels. Experts do not anticipate widespread labor unrest over the short-term, but do not exclude the possibility of social upheaval if the crisis is protracted and unemployment and underemployment rise significantly. End Summary.

SCOPE OF UNEMPLOYMENT

2. (U) According to recent data from the government statistical service (Rosstat), the number of unemployed workers in Russia had climbed as of January to 6.1 million, or 8.1 percent of the economically active population (approximately 70 million). Unemployment is currently 23.1 percent higher than in January 2008. Estimates for unemployment by the end of this year range from ten to twelve million workers. Since October of last year, unemployment has grown by approximately 360,000 workers each month. Of the six million unemployed, only 1.8 million have registered officially with the Ministry of Public Health and Social Development. The Minister of Public Health and Social Development, Tatiana Golikova, told the Federation Council that figure could rise to 2.8 million this year.

3. (C) We are told that terminated employees often fail to register because the meager size of the unemployment allowance they would receive is simply not worth their time and trouble. In addition, employers commonly pressure employees to sign documents stating they left of their own volition to avoid paying separation benefits. In a meeting on February 24, Independent Institute of Social Politics (ISP)

Regional Program Director Natalya Zubarevich told us that self-employed (farmers, SME workers) encounter bureaucratic difficulties in documenting their termination. She added that local labor and employment services often further complicate the process by establishing bureaucratic barriers to registration when they have insufficient funds to pay unemployment benefits.

14. (U) Adding to current levels of unemployment, 1,950 organizations announced plans to reduce the size of their work forces at the end of January. By February 11, 470,000 workers had received notices of imminent termination. Also, more than one thousand enterprises plan to transfer some of their staff to part-time hours, mandatory leave, or idle time, affecting over 920,000 workers. During a conference devoted to the labor market situation at the beginning of February, Deputy Prime Minister Alexander Zhukov stated the number of idle employees increased by 15,000, to 821,000, in the first week of the month alone.

UNEMPLOYMENT BROKEN DOWN BY SECTOR

15. (C) Russia's labor force currently consists of approximately 70 million workers divided into four sectors: 20 million industrial workers, 20 million workers paid from the government budget, 10 million small business workers, and 20 million informal sector workers. (Note: the "informal sector" is often referred to as a gray area between legal and illegal business activity; most often involving retail trade and unregistered intermediary or "middleman" services between

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firms).

16. (C) ISP's Zubarevich believes that workers paid from the government budget; teachers, doctors, or the so-called "budgetniki" would enjoy employment stability in the absence of any legislative missteps. However, she said employment in the small business sector would definitely decrease with the widespread collapse of SME's and most of those workers would shift to the informal sector. In turn, many current informal sector workers would eventually leave the economically active population as the crisis lengthened. (Note: Zubarevich described a common Russian phenomenon, "the dacha effect," in which workers cease formal labor market activities in favor of meeting their needs through a combination of home agriculture, unemployment benefits, and spousal employment.)

17. (C) Zubarevich concluded that the 20 million workers in the industrial sector would be the most vulnerable to lay-offs and suffer the most from the crisis. Employment in this sector was already declining during years of economic growth as many firms were streamlining and down-sizing.8 Zubarevich estimated that this year's 20 percent decrease in industrial output would result in an employment drop of approximately ten percent of industrial workers, or two million workers.

SINGLE COMPANY TOWNS FACE HIGHER RISK

18. (SBU) The employment situation for industrial workers is notably dire in Russia's single company towns, where one industrial facility constitutes the majority of the local economy. In a recent study, ISP's Regional Policies Institute reported 25 million people live in 460 such towns in Russia. The study claimed that metallurgy towns in Urals, auto-manufacturing towns in central Russia, and less developed areas of southern Siberia are most likely to suffer from the crisis.

19. (C) Zubarevich told us the threat of a sharp decline in unemployment is especially high for the 160 single company

towns whose industries belong to large conglomerates, for instance Magnitogorsk, which is 100 percent dependent on Magnitogorsk Steel and Iron Company (Magnitka). She asserted, however, that the government would do all it could to prevent companies in areas where employees had no alternatives for work, to lay off large numbers of workers, even those that are facing financial difficulties.

WAGES, NOT EMPLOYMENT, INDICATE CRISIS SEVERITY

¶10. (C) In a separate meeting with us, Deputy Director of the Higher School of Economics, Vladimir Gimpelson, explained that the overall decline in real wages (and consequently purchasing power) was a better measure of the effect of the crisis on the well-being of Russia's work force than unemployment levels. During the 1998 economic crisis, he noted, the unemployment level increased only marginally while wages fell substantially. In the present crisis as well, Gimpelson anticipated a universal decline in wages as opposed to massive unemployment.

¶11. (C) Gimpelson observed that Russian companies were more likely to cut employees, hours, wages and bonuses than reduce the size of their work forces. Echoing Zubarevich, he said the major corporations were under pressure by the federal and regional governments as well as the official unions to hold back on layoffs. Furthermore, management was required by law to pay employees facing dismissal costly separation packages (usually the equivalent of three months of their salaries), which they would not have to pay to the underemployed.

¶12. (SBU) As evidence that this process is gathering steam in Russia, wage arrears in Russia increased by 49 percent from 2.29 billion rubles at the beginning of January to 6.96 billion rubles at the beginning of February. In Moscow alone, employers, salary obligations doubled to 101 million rubles. According to the Federal State Statistics Service, private sector enterprises, especially in the processing production, transport, construction, and agricultural

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sectors, owe employees another 6.6 billion rubles. The government itself owes 378 million rubles to employees paid from its budget. The problem of arrears, especially in the private sector, is likely to persist owing to the credit-liquidity crunch and the virtual freeze on bank lending to the corporate sector.

¶13. (U) Purchasing power is also declining rapidly. If workers receive their salaries, they face considerably reduced purchasing power compared to last year. Real wages shrank by 6.7 percent last month according to the government statistics service. Nominal wages increased by only three percent between January 2008 and January 2009, compared with 27.5 percent the previous year. The Ministry of Economic Development reported real incomes would fall for the first time in ten years in 2009. It currently estimates annual real income loss will total 8.3 percent in 2009.

REGIONAL PROGRAMS UNLIKELY TO REDUCE LABOR MARKET STRESS

¶14. (C) At the end of last year, in another anti-crisis measure aimed at containing social tension, the Russian federal government allocated 43.7 billion rubles to subsidize regional programs intended to reduce labor market stress. The federal government plans to establish agreements with each region through which it will provide 95 percent of program funding if the regional government supplies the remaining five percent from its budget. Program activities will include advanced professional training, employment and internship placement, relocation support, as well as

technical and financial assistance to enable unemployed workers to start small businesses. Nationwide, the federal government plans to create one million positions, train 160,000 workers, generate 50,000 jobs through small businesses, provide relocation assistance to 27,000 workers, and place 9,000 university graduates in internships.

¶15. (C) We will assess the effectiveness of the government's regional employment problems in more detail in a septel. Suffice it to say that most experts and financial analysts with whom we have spoken are skeptical about prospects for regional programs to stimulate employment, citing inter alia widespread corruption at regional levels and the high probability that the funds will be misappropriated and misspent.

COMMENT

¶16. (C) While unemployment is gradually increasing, we do not anticipate massive layoffs over the short term. For the time being, under pressure from the government and the unions to preserve jobs, employers are more likely to reduce or delay wages, implement part-time work regimes, or force employees to take leave. Workers have already begun to adjust consumption patterns, and, thus far, are still apparently able to meet their basic needs even with reduced incomes. Nevertheless, the likely spread of unemployment, combined with diminishing wages and persistent inflation, could be catalysts for severe social discontent later in the year. As the crisis deepens and intensifies, and if the government is forced to make major cuts in social expenditures, the economic crisis could very well evolve into a social crisis.
End Comment.
BEYRLE